

# Memorandum

To : Honorable Betty T. Yee, Chair  
Honorable Judy Chu, Ph.D., Vice-Chair  
Honorable Bill Leonard  
Honorable Michelle Steel  
Honorable John Chiang

Date : August 3, 2007

From : Ramon J. Hirsig   
Executive Director

Subject : **Tax Gap Budget Change Proposal (BCP)**

Attached for your consideration is the comprehensive BCP to request the resources necessary to address a portion of the sales and use tax gap for the State of California. The BCP provides a phased in plan to address each of the three major components of the tax gap. Each of the three major components is further divided into eight separate proposals. I have attached summaries for each of the eight proposals for your convenience.

In previous correspondence provided to you related to the tax gap, outsourcing a portion of our collection accounts was a consideration as one of the proposals. That proposal has been removed because it has been determined that legislation would be required to provide authority to outsource in-state accounts. Possible legislative proposals will be discussed separately.

As directed, staff held an interested parties meeting in Culver City on July 30, 2007 and an additional meeting in Sacramento on July 31, 2007. The following summarizes the issues raised that were directly related to the eight proposals:

## July 30, 2007 Meeting

- Brick and mortar businesses are at an unfair disadvantage when competing with internet sellers. BOE needs to level the playing field.
- BOE should offer incentives for out-of-state retailers that do not have nexus, to register and collect the use tax.

## July 31, 2007 Meeting

- Information provided to date does not provide enough detail for the interested parties to discuss. Industry would like to know the scope of the proposals and if there will be limitations such as how far the agency is willing to go to achieve the objectives.
- Industry is not confident the BOE has the legal authority to request information from third-parties and believes that requesting information from an internet provider is overly intrusive. Industry expressed concern over the way the BOE may proceed if the internet retailers are not willing to provide information.
- Service industries need more education related to use tax obligations. Industry would prefer a lengthy period of education before any enforcement efforts are implemented and would like the BOE to support relief of penalties and interest for service industries found to owe use tax.

Staff awaits approval on those BCP components the Board chooses to advance through the process. Should you have any questions pertaining to any aspect of the BCP or the interested parties meetings, please contact me at (916) 327-4975 or Ms. Randie Henry at (916) 445-1441.

RJH:tm  
Attachments

cc: (all w/attachments)  
Mr. Alan LoFaso  
Mr. Steve Shea  
Mr. Mark Ibele  
Ms. Barbara Alby  
Mr. Erik Caldwell  
Ms. Marcy Jo Mandel  
Ms. Randie Henry  
Mr. David Gau  
Ms. Anita Gore  
Mr. Jeff McGuire